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Coöperation in International Banking

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DURING the war the allied nations were compelled more or less to pool their resources. While this pooling naturally took the form at first of intergovernmental arrangements, it soon developed into close banking coöperation. Until we ourselves entered the war, moreover, American coöperation with European Allies was largely worked out through the banks, American banks aiding largely in the loans which were made to the various allied nations. As a consequence we are today in much closer touch with the bankers of the world than we have ever been before. Of course, the large banks of New York and a few other large cities have had for many years intimate dealings with bankers in other countries, but bankers in the smaller interior cities of America have rarely had significant contacts beyond our political boundaries. The war has changed this. We find the general body of bankers in the United States—and the same rule applies to the so-called provincial bankers of the European countries—willing and eager to enter into international financial relations. The world has been brought closer together, and international coöperation will from now on be much more common. The markets of the world have also been brought into closer contact. A merchant of Cleveland thinks no more of dealing with Melbourne than he formerly thought of dealing with St. Louis.

OUR FINANCIAL RESPONSIBILITIES

Intimate international banking relations for the future rest, however, on something much more fundamental than the mere breaking down of our past inertia and provincialism. The heavy loans we have placed in Europe give us vital interests there which our banks must look after. The present weakness of our European Allies, and for that matter of our enemies, makes it necessary that our banks should go very much further than anyone dreamed that they would go before the war in financing goods in shipment from one country to another. The financing of goods in shipment,

moreover, will for a time involve much more than ordinary commercial banking. Where international trade under normal conditions is a matter of balancing goods against goods with a mere temporary advance of banking funds to bridge over for a given country the period between heavy imports and heavy exports, there is likelihood that for a time at least the shipment of goods will be a one-sided movement, and that the backflow from Europe and many other countries to the United States will be securities and obligations rather than liquid commodities. The financing of international commerce, therefore, will involve in no small measure not merely the advance of short time funds to merchants, but also the problem of placing European securities with investors, so that funds to pay off the short time bank loans may be obtained. The commercial banker proper may not engage in all of this, but the American banking system as a whole, including investment bankers, private bankers, great bond houses, and the like, will be obliged to do it.

American banking capital, in other words, and the services of the American banker must extend into markets which have hitherto found their own banking systems adequate, not alone for their domestic requirements but also for the service of foreign countries. American banking services must be performed in the great European financial centers, and American banking credits must be at the service of the commerce of those great commercial nations which in the past were more than able to supply the financial needs of their commerce.

RECIPROCITY BETTER THAN COMPETITION

In some form or other our banks must take over work which foreign banks have hitherto performed. The question arises, however, as to whether they shall do this by establishing branches in foreign monetary centers, or whether they shall do it by coöperating with the existing banks of these countries. I believe that we can get further if we do not invade the home fields of foreign banks with our branches, but rather coöperate with them on the basis of *reciprocity*. Reciprocity—this must be the keyword of our future international relations. The Frenchman will look with more favor upon us if we form alliances with his own institutions than if we compete with his institutions by setting up branches in his financial centers.

This has, indeed, been the American practice throughout our history on the whole. Texas banks are almost as far from New York as European banks are. New York banks, however, have had intimate relations with Texas banks, and these relations have not been strictly competitive. Rather, they have done business *with* one another. Texas banks have borrowed largely from New York banks. Generally, Texas banks have kept funds on deposit with New York banks. Texas banks have sent funds to New York for investment, either in short time commercial paper, or in stock exchange loans, or simply for deposit with the New York banks which have paid a moderate rate of interest on the deposits. Credit information has been freely interchanged between New York banks and Texas banks. If a Texas bank found one of its customers growing so big that he could not secure enough loans from his local bank to meet the needs of his business, it has often arranged that he should secure additional loans from its New York correspondent. And so in general throughout the country, banks in the various financial centers have had correspondent banks throughout their respective regions, while New York banks have had correspondent banks in all parts of the country. Funds have flowed freely from one part of the country to another as seasonal variations or other causes led to a surplus of loanable bank funds at one point and a scarcity at another. Of course, our federal reserve system has been devised to make such coöperation much more effective.

None the less, America has remained a country of independent banks. We have today around 30,000 banks of all kinds in the United States, each an independent center, each officered by men whose interests are wrapped up in the progress and success of the locality in which the bank is placed. Our banks have been local banks serving the interests of their own localities rather than subject to control from greater institutions hundreds of miles away. In no small measure, the marvelous development of the United States has been due to the vigor, independence and initiative of our independent country bankers, who, however much they might be aided by counsel, information and funds from the financial centers, were none the less not hampered by the necessity of submitting every transaction to the approval of bankers in the financial centers.

Had the great banks in American financial centers possessed authority to establish branches in smaller places to compete with, and perhaps drive out of existence, the country bank, our banking history would have been one of turmoil and bitter political struggle. As things stand, relations among American banks are friendly and the interchange of banking services is highly efficient.

HOW TO PROFIT FROM PAST EXPERIENCE

Some criticisms have been made of our American banking system on the ground that it is impossible that 30,000 independent institutions could coöperate efficiently in a great crisis. The great struggle through which we have just passed has proved the contrary. Without authoritative control, and acting primarily by suggestion, the federal reserve board, the federal reserve banks, and the leading bankers in the various financial centers have been able to organize and marshal the banking resources of the country in a manner that has been superb. Even so delicate a matter as the rationing of credit to the customers of the banks, discouraging good customers from borrowing in order that funds might be freer for the government's financial operations or for more essential industries, something which it was supposed that independent competing bankers could not easily do, was brought about during the war with wonderful thoroughness and efficiency. We carried the peak of the load of war finance with ease.

There is little likelihood that our system will ever be called upon again to bear so great a strain. That we did it, when fundamental factors are considered, is really no marvel. Given the patriotism of our local banks—and they are patriotic; given their intelligence and knowledge of local conditions—and they possess these; given their desire to accomplish the ends which the government indicated as necessary and desirable; they were able to meet the emergency with much more efficiency and with much less friction, each banker acting in the light of his knowledge of local conditions, than would have been the case had we had thousands of branches subject to general rules of thumb which left little discretion with the local managers.

SOME DEFECTS OF BRANCH BANKS ABROAD

Our American banking experience, then, gives us the guiding principle which we would do well not to ignore in extending our

international banking relations. We should seek to utilize wherever possible the existing banking machinery in the countries which we desire to help. If we establish branches among them we shall need years to build up organizations which will be in harmony with the spirit and purposes of these foreign countries. We shall need years to gain the credit information and experience which is essential to sound banking. We have gone far in the United States in standardizing credit information and in standardizing credit conditions. Foreign bankers and foreign business men have used radically different credit methods from our own. Credit information is, on the whole, much more confidential with them than with us and consequently not fully available except to those maintaining close relations with the foreign banks. It is far better for an American bank to operate through a foreign bank which possesses intimate knowledge of credit conditions in its sphere of operations than for the American bank to do the business directly itself. Thus it would be easily possible for a New York bank to establish a branch in Lima, Peru, under a competent hired manager sent from America. But from such a branch we could get no such services as would be rendered by a friendly Peruvian bank. The officers and directors of the Peruvian bank would be men of standing and influence in the community, intimately familiar with its affairs. We could not hire men of this quality to serve in a branch bank in Lima. The point is more obvious, perhaps, if we reverse the supposition. A Lima bank could not possibly be as well served by its own branch in New York as it is by having a leading New York bank as its correspondent.

Of course, there may well be some services which a close affiliation with an existing bank cannot give. This, however, does not necessitate the establishment of a branch. American banks will do better to have resident representatives in the foreign fields who can look after the interests of their clients but at the same time handle the distinctively banking business through a friendly bank of that locality.

This does not, of course, preclude the establishment in exceptional cases of branches of American banks. In undeveloped countries we must open our own export and import houses, our own banks and other agencies. In any country which has, how

ever, a well developed economic structure and a developed banking system of its own, relations should be developed by utilizing existing institutions rather than by creating new and alien institutions.

The English are by far the most experienced international bankers. Let us hear the opinion of the justly celebrated dean of the banking profession, Sir Edward H. Holden, addressing the shareholders of his great bank, the London City and Midland. He said in part:

There is a difference of opinion among English bankers on the question of foreign banking. One class of banker believes that the proper course is to open abroad branches of their own bank, in which case they will compete with the foreign banks in their own country. Another class believes that the better policy is to work from London in conjunction with the foreign banker, and not to go into direct competition with him. . . . Our fear is that we may make the foreign bankers unfriendly towards us by opening branches in their own countries in competition with them, and that we may drive their business to Germany or New York. If this should ultimately happen, the opening of branches abroad by English banks will have acted prejudicially against London retaining her position as the financial center. . . . Further, if we retain the friendliness of these foreign bankers, they will show a greater interest in their clients dealing with traders in this country than they would show in case we became unfriendly by going into competition with them.¹

Another well-known English banker corroborates this view. Sir Robert Harvey, chairman of the Anglo-South American Bank, referring to Sir Edward Holden's speech, says:

I direct your attention to a statement of policy on the part of the chairman of one of the foremost of these banks who informed his stockholders that he considered it to be an incorrect policy for themselves and similar banks to establish branches in foreign countries, and that he preferred to enter into working arrangements with banks trading outside Great Britain.

This is a policy which we cannot but think is, for a variety of reasons, the correct one.²

It is much more difficult for an American bank to cover the foreign fields by means of banking alliances than by means of branches. Our great banks which have followed the plan of developing foreign alliances have spent years of patient endeavor in the process, while a branch may be established over night. It

¹ The London City and Midland Bank, Ltd., Extraordinary General Meeting, Friday, September 13, 1918, pp. 16, 18, 20.

² London *Economist*, October 26, 1918, p. 593.

is likewise usually more expensive for an American bank to do its business through a banking alliance than through its own branch, but the fruits of a banking alliance are very great and are of a sort that money cannot buy. By a banking alliance, the American bank secures the friendly coöperation of influential citizens of a foreign country—the friendship of men of affairs who cannot be hired for a salary—who have no wish to become the employes of an American (to them, a foreign) bank, but who are glad to enter into an arrangement by which, on terms of equality with us, they assist in promoting the business intercourse of the two countries.

Reciprocity, not colonization, must be the keyword of our plan of international banking.